

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its March 2002 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.4% in 2002, 2.7% in 2003, 4.3% in 2004, 3.4% in 2005, and 3.1% in 2006;
- U.S. nonfarm employment declines 0.9% in 2002, advances 0.2% in 2003, 1.9% in 2004, 1.8% in 2005, and 1.3% in 2006;
- annual average U.S. civilian unemployment peaks at 5.9% in 2003 and falls gradually to 5.1% by 2006;
- the consumer confidence index bounces between 80 and 95 over the forecast period;
- consumer inflation is 2.3% in 2003 and averages about 2.0% thereafter;
- the federal government deficit peaks at \$396.1 billion in 2003;
- and the current account balance deficit swells steadily to \$662.9 billion by 2006.

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in opposite directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. A major factor in each scenario is the war with Iraq. Both alternatives and their impacts on the Idaho economy are discussed below.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 15% probability of occurrence. In this scenario the quick U.S. victory in Iraq boosts consumer and business sentiment. The improved outlook spurs consumer spending, business investment, and the stock market. Several elements of the consumer spending that were hardest hit after September 11, 2001, such as spending on travel and recreation, show a strong recovery. On the business side, spending on equipment and software also show a noticeable improvement.

The quick end to the war does have a negative impact on the economy. Fiscal policy is less stimulative due to the reduced military spending compared to its baseline counterpart. Some things are very similar to the baseline, however. This scenario has the same assumptions about oil prices as in the *Baseline Scenario*. Monetary policy is also the same, since inflation is about the same. In summary, GDP growth in the *Optimistic Scenario* is about 0.25 percentage point higher in 2003 and 0.4 percentage point higher in 2004.

The marginally improved national forecast nudges Idaho economic growth up slightly. Idaho nonfarm employment growth increases twice as fast in 2003 in this case compared to the baseline. However, growth rates can be deceiving because the nonfarm employment level is just 400 higher than in the baseline case. This continues in 2004 and 2005. In 2006, nonfarm employment growth of 1.9% is slightly lower than the baseline's 2.0%. As a result, Idaho nonfarm employment is around 1,500 higher than in the baseline in 2006. Likewise, Idaho real personal income experiences a subtle improvement. In 2006 it is \$34.6 billion, which is about \$0.3 billion more than in the *Baseline Scenario*.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
APRIL 2003

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
GDP (BILLIONS)															
Current \$	10,446	10,907	11,590	12,226	12,868	10,446	10,933	11,659	12,331	12,998	10,446	10,709	11,293	12,000	12,678
% Ch	3.6%	4.4%	6.3%	5.5%	5.2%	3.6%	4.7%	6.6%	5.8%	5.4%	3.6%	2.5%	5.4%	6.3%	5.6%
1996 Chain-Weighted	9,440	9,696	10,116	10,463	10,783	9,440	9,718	10,177	10,555	10,890	9,440	9,535	9,883	10,319	10,710
% Ch	2.4%	2.7%	4.3%	3.4%	3.1%	2.4%	2.9%	4.7%	3.7%	3.2%	2.4%	1.0%	3.7%	4.4%	3.8%
PERSONAL INCOME - CURR \$															
Idaho (Millions)	33,646	35,080	36,956	38,840	41,159	33,660	35,165	37,200	39,178	41,511	33,660	34,851	36,396	38,364	40,568
% Ch	3.4%	4.3%	5.3%	5.1%	6.0%	3.5%	4.5%	5.8%	5.3%	6.0%	3.5%	3.5%	4.4%	5.4%	5.7%
U.S. (Billions)	8,947	9,311	9,812	10,337	10,908	8,947	9,323	9,854	10,406	10,999	8,947	9,209	9,563	10,101	10,685
% Ch	3.0%	4.1%	5.4%	5.4%	5.5%	3.0%	4.2%	5.7%	5.6%	5.7%	3.0%	2.9%	3.8%	5.6%	5.8%
PERSONAL INCOME - 1996 \$															
Idaho (Millions)	30,298	30,979	32,142	33,116	34,335	30,310	31,052	32,357	33,418	34,632	30,310	30,726	31,637	32,800	34,053
% Ch	2.1%	2.2%	3.8%	3.0%	3.7%	2.1%	2.4%	4.2%	3.3%	3.6%	2.1%	1.4%	3.0%	3.7%	3.8%
U.S. (Billions)	8,057	8,222	8,534	8,814	9,100	8,057	8,232	8,571	8,876	9,176	8,057	8,119	8,313	8,636	8,969
% Ch	1.6%	2.1%	3.8%	3.3%	3.2%	1.6%	2.2%	4.1%	3.6%	3.4%	1.6%	0.8%	2.4%	3.9%	3.9%
TOTAL NONFARM EMPLOYMENT															
Idaho (Thousands)	564.1	564.7	573.4	583.2	594.6	564.1	565.1	574.4	585.1	596.1	564.1	562.0	564.8	576.9	589.2
% Ch	-0.7%	0.1%	1.5%	1.7%	2.0%	-0.7%	0.2%	1.7%	1.9%	1.9%	-0.7%	-0.4%	0.5%	2.2%	2.1%
U.S. (Millions)	130.8	131.1	133.5	136.0	137.7	130.8	131.0	133.0	135.9	138.0	130.8	130.1	131.1	134.2	137.1
% Ch	-0.9%	0.2%	1.9%	1.8%	1.3%	-0.9%	0.1%	1.6%	2.1%	1.6%	-0.9%	-0.6%	0.8%	2.4%	2.1%
GOODS PRODUCING SECTOR															
Idaho (Thousands)	107.1	103.2	101.8	101.6	102.7	107.1	103.3	102.1	102.2	103.5	107.1	102.1	100.1	101.2	103.2
% Ch	-6.6%	-3.6%	-1.3%	-0.3%	1.1%	-6.6%	-3.5%	-1.1%	0.1%	1.3%	-6.6%	-4.6%	-2.0%	1.1%	2.0%
U.S. (Millions)	23.8	23.3	23.2	23.6	23.8	23.8	23.3	23.3	23.8	24.1	23.8	23.1	22.5	23.0	23.5
% Ch	-4.5%	-2.1%	-0.4%	1.5%	1.0%	-4.5%	-2.1%	-0.3%	2.2%	1.5%	-4.5%	-3.2%	-2.6%	2.3%	2.5%
SERVICE PRODUCING SECTOR															
Idaho (Thousands)	457.0	461.5	471.6	481.7	491.9	457.1	461.8	472.3	482.9	492.6	457.1	459.9	464.7	475.8	486.0
% Ch	0.7%	1.0%	2.2%	2.1%	2.1%	0.7%	1.0%	2.3%	2.2%	2.0%	0.7%	0.6%	1.1%	2.4%	2.1%
U.S. (Millions)	106.9	107.7	110.3	112.4	113.9	106.9	107.6	109.8	112.1	113.9	106.9	107.0	108.6	111.2	113.5
% Ch	0.0%	0.7%	2.4%	1.9%	1.3%	0.0%	0.6%	2.0%	2.1%	1.6%	0.0%	0.0%	1.6%	2.4%	2.1%
SELECTED INTEREST RATES															
Federal Funds	1.7%	1.5%	3.1%	4.2%	4.9%	1.7%	1.5%	3.1%	4.2%	4.9%	1.7%	0.9%	1.8%	3.6%	4.2%
Bank Prime	4.7%	4.5%	6.1%	7.2%	7.9%	4.7%	4.5%	6.1%	7.2%	7.9%	4.7%	3.9%	4.8%	6.6%	7.2%
Existing Home Mortgage	6.5%	6.1%	7.0%	7.7%	7.9%	6.5%	6.1%	7.0%	7.6%	7.8%	6.5%	6.1%	6.6%	7.6%	7.5%
INFLATION															
GDP Price Deflator	1.1%	1.7%	1.9%	2.0%	2.1%	1.1%	1.7%	1.8%	2.0%	2.2%	1.1%	1.5%	1.7%	1.8%	1.8%
Personal Cons Deflator	1.4%	2.0%	1.5%	2.0%	2.2%	1.4%	2.0%	1.5%	2.0%	2.2%	1.4%	2.1%	1.4%	1.7%	1.9%
Consumer Price Index	1.6%	2.3%	1.6%	2.1%	2.3%	1.6%	2.3%	1.6%	2.0%	2.3%	1.6%	2.5%	1.5%	1.7%	1.9%

Forecast Begins the FOURTH Quarter of 2002

PESSIMISTIC SCENARIO

This scenario has been assigned a 25% probability of occurrence. The key feature of this scenario is a protracted war with Iraq. Although such an assumption seems unrealistic at this point, it was not at the time this forecast was prepared. While the likelihood of this occurring has dropped, it nonetheless provides a sobering lesson at how bad things could have turned out had the war been strung out over several months. It is assumed that until the war was resolved consumers would rein in spending, businesses would delay investments, and stock market would tumble. Consumer confidence suffers another blow when the weak job market finally bursts the housing bubble. Although the longer war costs about \$20 billion more than a short war, the extra spending is stretched out so it has little impact on GDP.

The Federal Reserve loosens to prop up the economy, but its efforts arrive too late to prevent a recession. Real GDP rises in the first quarter of this year, but it falls in the second and third quarters. The war finally ends in late summer, causing confidence to begin rising again. With inventories at bare-bones levels, production picks up in late 2003. As business improves, companies begin to expand their payrolls. The healthier job market rekindles the housing market, which in turn, boost nonresidential investment. This growth continues through the early part of 2004 then begins to level off. The economy is on solid ground by 2005.

Under this scenario the state's recovery is delayed. Instead, of expanding 0.1% in 2003 as in the baseline, nonfarm employment contracts nearly 0.5%. It does advance 0.5% in 2004, but this a third of the baseline's expected pace that same year. Employment growth does pick up speed in the last two years of the forecast, but it is not enough to offset its previous sub-par showing. In 2006 Idaho nonfarm employment is around 589,200, which is about 5,400 lower than in the baseline. Idaho reap personal income is also lower in 2006 despite a late rally.